



11 August 2017

SENTECH THIRD QUARTER PERFORMANCE REPORT FOR THE 2016/17 FINANCIAL YEAR

1. INTRODUCTION

SENTECH's legislative foundation is the SENTECH Act, which gives it the responsibility for providing broadcasting signal distribution services as a 'common carrier' to licensed television and radio broadcasters. In 2002, SENTECH was granted two additional licences, allowing the company to provide international voice-based telecommunications and multimedia services. The company's mission is to provide open access and interoperable communications platform services that enable affordable universal access to digital content services. Its vision is to be a world-class provider of sustainable communications platform services.¹ SENTECH is licensed to provide electronic communications network services (ECNS) and electronic communications services (ECS).

The brief provides an analysis of the entity's third quarter financial and performance targets for the 2016/17 financial year including the period April – December 2016. This will be compared to the Department's annual performance report to enable the Committee on Telecommunications and Postal Services to do oversight over the entity.

2. PERFORMANCE²

The following section will briefly highlight the performance of the entity per programme.

2.1 PROGRAMME PERFORMANCE

The entity has four strategic goals (SG), with 9 key performance indicators (KPI's) in total. These targets are discussed below.

2.1.1 SG 1: Ensure that ICT infrastructure is accessible, robust, and affordable and secure to meet the needs of the country and its people

Under this strategic goal, the entity had one performance target, which is an annual target namely:

- Build and commission disaster recovery capability sites planned for the 2016/16 financial year.

Since this is an annual target, the entity does not report on this target in the third quarter report.

¹ Sentech (2016a)

² Sentech (2017)



Issues for Consideration:

- Although not reported on, the Committee may still enquire on the progress of the building of these sites, and how many sites are envisioned to be built?

2.1.2 SG 2: Ensure high levels of customer and stakeholder satisfaction by meeting their needs at all times

The strategic goal has 2 indicators of which 1 indicator was achieved and 1 not achieved.

The indicator achieved are as follows:

- Weighted average availability based on product revenues of 99.80 per cent

The target not achieved is as follows

- Customer Service Index, completion of survey for 2016/17

The entity states that the delays in achieving this target was mainly due to address recommendations from previous survey.

Issues to consider:

- The entity should account for the delay in completing the survey. Why was the recommendations from the previous survey not taken into account sooner? In that way it would not have affected the current year's survey.
- The entity should update the Committee on the digital migration to DTT and the progress of the DTH-S strategy.

2.1.3 SG3: Drive organisational performance to improve organisational effectiveness

The strategic objective only has two indicators of which one was achieved and one not achieved. The target achieved relates to effective talent management, where 60 per cent of the 2016/17 approved training plan interventions were implemented. The target not achieved also relates to effective talent management, where the performance reviews for all employees for quarter 3 were not completed.

2.1.4 SG4: Ensure that the Company is financially sustainable

Of the 4 key performance indicators, of which 3 are reported on for the third quarter, with one having no performance indicator for the third quarter. Of the 3 reported on, one was not achieved, while the other two was achieved. Those achieved related to:



- Achieved 70 per cent of budgeted Enterprise and Supplier Development (ESD) and Socio-Economic Development (ESD) spend
- Earnings before interest and tax

The indicator not achieved related to the development and implementation of a Pan-African Strategy. The reason given for the non-performance of this indicator was that there were delays in the procurement of a service provider to conduct the research to inform the business case.

The indicator not reported on relates to achieving a clean audit, as this will only be reported on in the fourth quarter.

Overall, of the 7 key performance indicators reported on, 4 targets was achieved, therefore 57 per cent of targets was achieved for the third quarter of the 2016/17 financial year. SENTECH will continue to implement some of the Shareholder's key programmes, specifically digital migration, which comprises of DTT and Direct to home-Satellite (DTH-S). The DTH-S Gap-Filler Platform will be used to provide digital television services in the geographic areas that do not have digital terrestrial signal coverage.³

3. FINANCIAL PERFORMANCE⁴

Revenue collected is slightly over budget which was set at R303.9 million, while R304.4 million was actually collected. This over collection of revenue can be attributed to the R22.5 million collected, that was not budgeted for Digital Terrestrial Television (DTT): Dual Illumination. However, excluding this amount, the Continuing business revenue was 8 per cent below budget, at R279 million where R203.5 million was budgeted for.

The entity managed to keep expenditure below budget, where the budget was R299 million, the actual amount spent was R267 million for the third quarter. This was due to reduced maintenance and employee costs in respect of official vacancies provided for but not yet filled, legal and consulting fees, and reduced satellite rental due to favourable forex rates.

The earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to R37.8 million compared to the budgeted amount of R4.5 million. Net profit amounted to R38.8 million on a budget of R8.5 million.

Issues to consider:

- The entity does not report on its net cash and cash equivalents. The Committee should request the entity to report on this in order to ensure that the company is sufficiently liquid for day-to-day operations.

³ Sentech (2016b)

⁴ Sentech (2017)



- The Department in its presentation states that Finance Income budgeted was R6 million but the entity actually received R16 million in finance income for the quarter. What does this refer to? Is it a loan?
- According to the entity's Corporate Plan for 2016-2019, due to the non-funding of the dual illumination project, SENTECH reserves will be depleted after 2018. What is being done to ensure that this does not happen?

4. CONCLUSION

Broadband Infraco has achieved 57 per cent of its targets for the third quarter of the 2016/17 financial year. Financially, the entity seems to be on a sound financial footing. SENTECH will continue to implement key programmes within its public service remit, specifically digital migration, which comprises of Digital Terrestrial Television and Direct To Home-Satellite (DTH-S).

5. REFERENCES

SENTECH SOC LTD (2016a) Integrated Annual Report 2015/16

SENTECH (2016b) SENTECH Corporate Plan 2016-2019. 29 February 2016.

SENTECH (2017) 2016/17 Third quarter business performance report to the Portfolio Committee on Telecommunications and Postal Services. Date of presentation: 15 August 2017. Parliament of the Republic of South Africa, Cape Town.